Insight

Regulators Admit Rules Could Eliminate 85,000 Jobs

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In regulation, there is a constant push and pull between agencies trumpeting the benefits of rules and the affected industries decrying possible job losses. On occasion, however, regulators admit significant employment declines because of new rules. According to an American Action Forum (AAF) review of rules from 2012 to 2015, regulators have conceded 85,711 lost jobs due to federal regulation, or roughly the population of Asheville, NC.

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Just as 2015 imposed tremendous regulatory burdens, federal agencies routinely admitted their rules could cut employment. In total, there were eleven rulemakings that had at least a qualitative discussion of employment losses last year, with nine quantifying those losses, totaling more than 51,000 lost jobs.

Surprisingly, the Department of Energy (DOE) quantified employment losses more often than any other agency in 2015, with seven. Combined, these rules could cut manufacturing employment by almost 8,000 jobs. DOE admitted that one proposal regulating efficiency standards for residential furnaces could cut more than 2,600 manufacturing jobs domestically. The agency wrote, “To establish a conservative lower bound, DOE assumes the entire industry shifts production to foreign countries. Some large manufacturers have already begun moving production to lower-cost countries.” As AAF highlighted previously, DOE has routinely admitted manufacturing could move to other counties because of higher compliance costs.

Indeed, a 2012 DOE rulemaking for clothes washers also offered the possibility of outsourcing: “The very large upfront capital costs at these levels (especially for introducing new front-loading clothes washer platforms) could influence the decision of manufacturers to relocate some or all of the domestic production of these clothes washers to lower labor cost countries.” With a significant portfolio of regulation on appliance manufacturers and predictions of decline, one might expect a poor market for employees in the industry. From 2005 to 2014, employment in “Major Appliance Manufacturing” has declined from 67,000 to slightly more than 48,600, a 27 percent drop.

In one bold regulation for 2015, the Department of Health and Human Services (HHS), conceded new Head Start performance standards could result in 9,432 lost jobs for teachers. This shouldn’t be too surprising, as the rule also imposes more than $900 million in annual costs. As previous AAF research found, for every $1 billion in new regulatory costs, average industry employment could decline by 8,101 jobs, somewhat in line with HHS’s own estimates.

In 2014, regulators provided a qualitative discussion of at least seven rules that could reduce industry employment, with only four rules actually quantifying the total (8,900 lost jobs). The largest, by far, was a DOE rulemaking that imposed efficiency standards for commercial refrigeration equipment. That $4.8 billion rule could cut more than 7,700 jobs, according to DOE's "GRIM" model. In addition to higher initial consumer costs from the regulation, the agency admitted smaller manufacturers could bear the brunt of the regulatory burden. "Small manufacturers, niche equipment manufacturers, and manufacturers exhibiting a cost structure substantially different from the industry average could be affected disproportionately." Not surprisingly, DOE produced every other rulemaking that quantified employment losses in 2014 as well.

Perhaps the largest piece of the regulation and employment puzzle was published in 2012. The Mercury and Air Toxics Standards (MATS) attracted controversy as one of the most expensive regulations in history. At $9.6 billion in annual costs, along with more than 700,000 paperwork hours, it easily ranks as one of the priciest regulations during the Obama Administration. In addition to the costs, EPA estimated roughly 15,000 job losses from the measure. This makes sense considering EPA conceded the rule would force 4.7 gigawatts of coal power offline.

What have these projections from EPA produced? Roughly one-third of coal plants are now retired. For jobs, the following chart from the Bureau of Labor Statistics tells the sobering story of the intersection of an unpopular industry and federal regulation:

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Despite the economic recovery and a strong market for natural gas, more than 38,500 employees in the fossil fuel power plant industry have lost their jobs. This makes sense considering that EPA estimate its MATS rule could reduce employment by 15,000 jobs. It is difficult to put a price on the people behind these numbers; people who experience an employment dislocation and must look for new work. Recent research suggests each displaced worker will forgo $100,000 in lifetime earnings. Applying that figure to displaced power plant employees results in an employment cost of $3.8 billion. In the words of EPA, these power plants and employees were "uneconomic to maintain." But for regulation, someone might be maintaining them now.

CONCLUSION

That regulation imposes significant costs is no secret. Regulators counter these costs with the benefits that regulations routinely deliver. Buried behind these well-publicized details are the employment analyses that often escape scrutiny. However, the projected loss of 85,000 jobs from rules during just a four-year period is hardly trivial. Typically, Americans want regulators to make the right decision to protect public health and safety. In a best case scenario, these agency-determined job loss projections will turn out to be less severe than predicted. What is clear, however, is that major federal regulations continue to have a negative impact on employment, and even regulators don't contest this reality.